
REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 8
DATE OF MEETING:	21st JULY 2005	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (595811)	DOC: u/ks/treasury management/out-turn2004-05
SUBJECT:	TREASURY MANAGEMENT ANNUAL REPORT 2004/05	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM08

1.0 Recommendations

- 1.1 That the Treasury Management Annual Report for 2004/05 is approved.

2.0 Purpose of Report

- 2.1 To detail the Council's actual borrowing and lending performance for 2004/05 compared to the approved strategy, including performance against the Prudential Indicators. This is in accordance with the Local Government Act 2003 and associated regulations.

3.0 Executive Summary

- 3.1 Although for a large part of the year the Council had surplus cash to invest on a temporary basis, this was not as great as projected due to lower council house sales. Consequently, interest received was less than budgeted. The Council ended the year with a temporary borrowing requirement.
- 3.2 The Council did however achieve its target for interest rates earned on temporary investments and managed its debt requirements within its statutory prudential indicators.

4.0 Detail

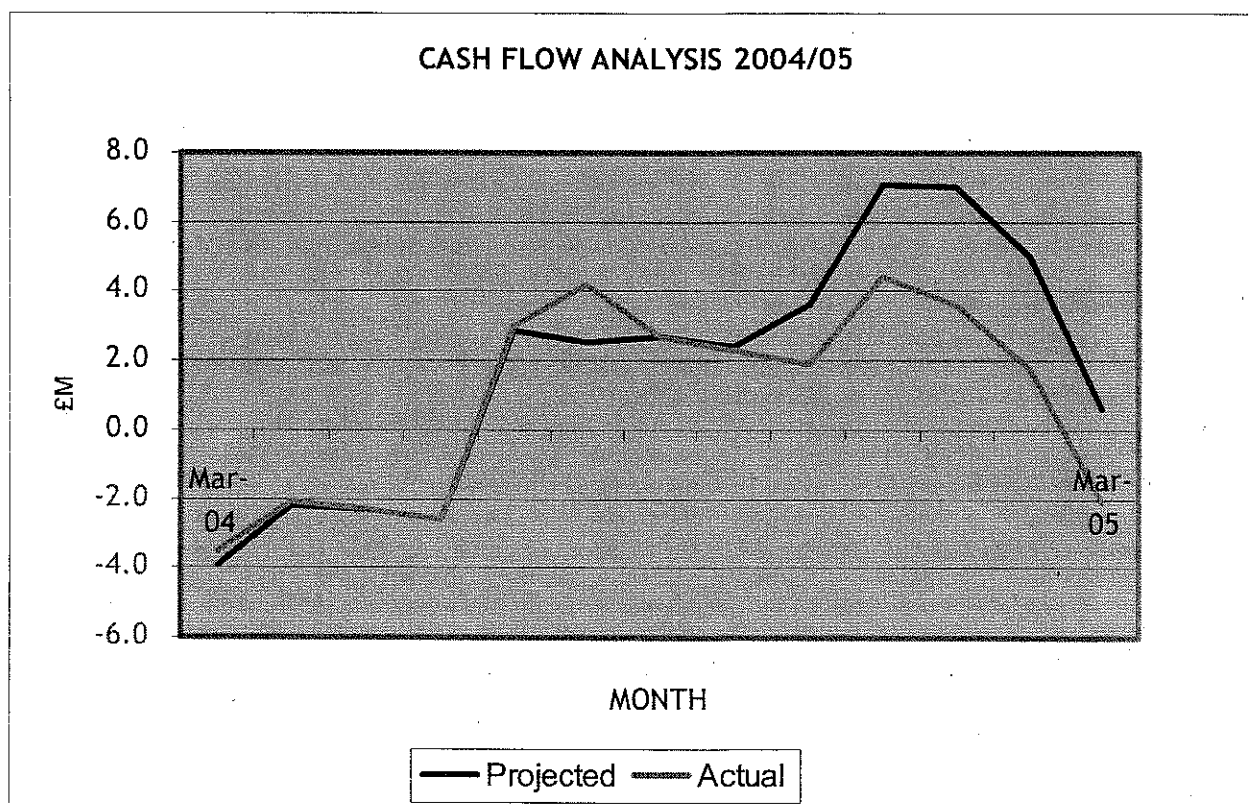
Borrowing During 2004/05

- 4.1 The Council's approved borrowing strategy for 2004/05 was:
- To manage its cash flow requirements through short-term borrowings and bank deposits.
 - That no longer-term borrowing be undertaken in the year.

- That the one remaining Money Market loan of £1m be repaid should the Lender invoke their option to increase the interest rate.

The Council's Cash Flow During 2004/05

- 4.2 The Council's cash flow on a daily basis can fluctuate depending on the timing of income and expenditure. At certain times of the year, the Council may need to borrow to cover shortfalls on a temporary basis, whilst when cash flow is positive, any surplus funds are invested on a temporary basis.
- 4.3 In recent years, the Council has not needed to enter into any long-term borrowing and infact has for the large part, been a net investor. This has been due to some relatively significant asset sales and an increasing take up of "Right to Buy" sales for council houses.
- 4.4 The Council's cash flow during 2004/05 with a comparison to that projected is shown below.



- 4.5 In general, the actual pattern of cash flow followed that projected. However, the amount of surplus cash did not peak as much as expected in the later half of the year. In addition, the Council ended the year with temporary debt.
- 4.6 This was mainly due to the number of council house sales falling quite significantly in 2004/05, from 120 in 2003/04 to 70 last year. The projection was based on the higher figure. In addition, large capital receipts from the sale of sheltered accommodation were predicted to be received in December 2004. Cash was actually received in April 2005.

Interest Rates

- 4.7 The projections assumed interest rates rising from 4.25% in April 2004, to 5% in January 2005, with an average of **4.625%** for the year. Rates on temporary borrowings were generally much lower than this, ranging from a low of 3.5% in July 2004, to 4.7% in March 2005. The Council paid an **average of 4%** on its borrowings for the year.
- 4.8 Rates on temporary deposits were slightly higher than projected, ranging from 4.4% in July 2004, to 4.77% in October 2004. The Council received an **average of 4.63%** on its deposits for the year.
- 4.9 The bank base rate started the year at 4% and had risen to 4.75% by March 2005. This was less than the 5%+ many economists had confidently predicted due in particular, to a slowdown in the housing market.

Budgetary Implications

- 4.10 The level of interest received and paid is built into the General Fund Revenue Account. The actual interest received compared to that included in the approved estimate is summarised below.

Cash Flow Interest 2004/05	Estimate £	Actual £
Overall interest received from money lent/on deposit	125,000	90,559
Less – Interest payments on temporary borrowings	-25,000	-21,932
Net Interest Received	100,000	68,627

- 4.11 The net effect is that overall interest received was down compared to that projected by around £31,000. This was due to the amount of cash in hand being lower than projected as previously highlighted.

Money Market Debt

- 4.12 The only long-term debt still remaining is one money market loan for £1m. This costs around £48,000 per year in interest charges at a fixed rate of 4.875%. It is due to mature in around 25 year's time.
- 4.13 Potentially, there is a break clause. The lender has the option of reviewing the interest rate at any time and increasing it if they so wish. However, the Council then has the option of rejecting this and can instead choose to repay without incurring any penalty.
- 4.14 In setting the borrowing strategy for 2004/05, it was considered that it was not cost effective to prematurely repay this loan due the penalty payment involved. However, it was also resolved that should the lender exercise their option to increase the interest rate, then the loan should be repaid at that time. The lender did not invoke their option during the year.

Investments 2004/05

- 4.15 The Council does not have any long-term investments, but the Council is required to maintain an investment strategy covering short-term investments such as the deposit of surplus funds.
- 4.16 The overall strategy was to effectively invest surplus funds to meet cash flow requirements within the year. In addition, there was no proposal to enter into longer term and externally managed funds. The Council invests surplus funds in accordance with an approved policy and associated lending list. This is summarised below.

Institution	Limit
Specified Investments	
• UK Debt Management Office (DMO)	£10m
• Local, Police, Fire and Parish Authorities	£5m
• Other Bodies with a High Credit Rating of F1+/AA-	£5m
Non-Specified Investments	
• F1/AA Rated Bodies – First Call	£1m
• F1/A Rated Bodies – Second Call	£0.5m
• F2/A Rated Bodies – Third Call	£0.25m

General Policy

- 4.17 Priority is given to specified investments in any investment decision. This is in accordance with current practice and these institutions are usually the only ones used in any case. The length of investments are made in accordance with overall cash flow requirements, subject to the condition that they are for less than 1-year to meet regulations. An analysis of deposits made in the year is provided below.

Institution	Average Deposit Lodged £'000	Highest Amount Lodged £'000	Total Interest Received £'000	Average Interest Rate
Co-op Bank (Council's Reserve Account)	154	1,000	6	3.72%
Bank of Scotland (Instant Access)	1,497	5,000	71	4.75%
The DMO, other Authorities, and mainstream Banks	311	4,200	14	4.50%

- 4.18 A substantial amount of available funds (around 75%) were lodged with the Bank of Scotland. This provided a competitive return on larger but short-term deposits with instant access. All deposits made were in accordance with the approved lending list and were all Specified Investments.

Performance Indicators

4.19 The main indicator is for the return on short-term investments to average over the year, **the local authority 7-Day Rate**. This is a standard measure of performance and is a rolling annualised rate. The Council's performance for 2004/05 (with a comparison to 2003/04) is shown below.

	2003/04	2004/05
7-Day Rate (target)	3.51%	4.47%
Actual Rate	3.55%	4.63%

Prudential Indicators

4.20 Under the Code of Practice for Capital Finance, the Council must set and regularly monitor Prudential Indicators. In addition, the Council's Section 151 (Chief Finance) Officer is required to provide an assessment of these indicators and the implications for the Council's spending plans and overall financial position.

4.21 The prudential system provides the flexibility for these indicators to be changed depending on local circumstances. It is the responsibility of the Section 151 Officer to advise the Council accordingly. The relevant Prudential Indicators for 2004/05 with a comparison to the previous year are set out in the table below.

Prudential Indicator	2003/4 Actual £'000	2004/05 Estimate £'000	2004/05 Actual £'000
1 – Capital Expenditure:			
• General Fund	2,062	4,230	3,205
• Council Housing	1,887	2,193	2,034
Total	3,949	6,423	5,239
2 – Ratio of Financing Costs to Net Revenue Stream:			
• General Fund	7.4%	1.2%	1.3%
• Council Housing	11.9%	6.9%	5.2%
3 – Capital Financing Requirement (CFR)	18,828	18,239	17,641
4 – Authorised Limit for External Debt			
• Borrowing Limit	18,000	7,500	7,500
• Long term Liabilities (Covenant Finance)	4,000	3,500	3,500
Total	22,000	11,000	11,000
5 – Operational Boundary for External Debt	15,000	5,000	5,000

Indicator 1 - Capital Expenditure

- 4.22 This represents a summary statement of actual capital expenditure that was incurred. Further details of the investment programme and financial performance is subject to the Budget Out-turn report elsewhere on this Agenda.

Indicator 2 - Ratio of Financing Costs to Net Revenue Stream

- 4.23 This indicator aims to show the level of "gearing", i.e. the extent of the Council's debt liability. If this percentage is high and/or rising, then it could give cause for concern as it may indicate that an organisation is relying too heavily on loan finance.
- 4.24 The indicator for the Council shows that in percentage terms, the Council's overall debt interest is relatively low and has reduced significantly from 2003/04. This is due to the repayment of Government debt in March 2004.
- 4.25 The main liability now remaining is interest payable on Covenants.

Indicator 3 – Capital Financing Requirement (CFR)

- 4.26 The CFR is a measure of the Council's underlying need to borrow **for capital investment**, and is based on the value of its assets contained in the Council's balance sheet. Under the Prudential System, the Council has to ensure that net external borrowing does not exceed the CFR. The Council's net borrowing was substantially below this amount throughout the year.

Indicator 4 - Authorised Limit for External Debt

- 4.27 This is a statutory limit designed to cover all borrowing and long-term liabilities. The limit of £11m was not breached at anytime during the year. The maximum amount of debt peaked at around £3.6m. Covenant finance outstanding at 1st April 2004 was £3.6m, falling to £3.1m at 31st March 2005.

Indicator 5 - Operational Boundary for External Debt

- 4.28 This limit acts as a guide and monitor for the Head of Finance in managing day to day treasury management. It is designed to act as an early warning sign in advance of the Council possibly exceeding the statutory limit above. Although at times this boundary was exceeded, as highlighted above, the statutory limit and CFR was not in danger.